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CENTRAL INTELLIGENCE AGENCY

8 August 1950

INTELLIGENCE MEMORANDUM NO. 318

SUBJECT: Importance of Strategic Exports in East-West Trade

In 1949, the trade of ERP countries with the Soviet Union and its European Satellites (Eastern Europe, excepting Finland and Yugoslavia) amounted to less than 4 percent of their total foreign trade. Not more than 30 percent of this European trade with the Soviet orbit consists of items classified by the US as "strategic"; thus acceptance by the ERP countries of the US export control program would directly affect in the neighborhood of only 1 to 2 percent of their total foreign trade. In terms of trade volume, even a complete embargo on trade with the Soviet Union and its European Satellites would reduce the exports of ERP countries by only $700-800 million. Because the US proposals would affect no more than a third of this trade and only a part of this amount would be subjected to embargo, the direct reduction probably would not exceed $200 million. Taking account of various indirect effects (for example, an embargo on strategic goods might adversely affect trade negotiations) and statistical inaccuracies, however, full compliance with US security export proposals would probably result in a total reduction of the exports of ERP countries of approximately $400 million, for which alternative markets would be required (present total exports approximate $18,000 million).

US export controls have made it impossible for the USSR and its Satellites to obtain legally from other sources most of the strategic supplies presently being obtained from Western Europe. In terms of diversion of resources, it would be enormously difficult and costly for the Soviet orbit to develop indigenous supplies of (or substitutes for) the strategic goods now coming from Western Europe. Western European imports from the orbit (chiefly coal and grain) are, however, available elsewhere, and the cost to the West of shifting to other sources of supply would be comparatively small.

The reluctance of Western European governments to restrict exports of security items to the Soviet orbit, as proposed by the US, stems in part from their concern with maintaining and developing export markets in

Note: This memorandum has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force.

Document No. ____

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Class. CHANGED TO: TS S C

DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

Date: 5/1/78 By: ____

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areas capable of supplying in return "dollar-saving" food and raw materials. The importance of "East-West" trade in contributing to the solution of Western Europe's balance of payments problem has been taken as axiomatic. (The promotion of "East-West" trade is stated in the Foreign Assistance Act to be one of the objectives of the ECA.) The high level of prewar "East-West" trade and the "natural complementarity" of the industrial countries of Western Europe with the agricultural and raw material producing countries of Eastern Europe have led to a widespread notion that the US is interfering with the life line of Western Europe in seeking any curtailment of "East-West" trade. Estimates in terms of billions of dollars have been made as to the "cost" to Western Europe of full cooperation with the US security export control program.

Analysis of Western European trade statistics suggests that there has been a serious misconception in many quarters as to the over-all importance to Western Europe of its trade with the Soviet orbit. One factor which has been overlooked is that Finland and Yugoslavia account for almost a third of "East-West" trade (1949 statistics) and that no interruption of any consequence in this trade is called for by the US export control proposals.

This disproportionate emphasis on "East-West" trade may also have risen in part from hopes for an easy solution to the "dollar problem," combined with a tendency among statisticians analyzing Europe's economic recovery problems to plot a prewar level as a postwar target, thereby ignoring the restrictive effects on "East-West" trade of Soviet efforts toward industrialization and integration of the orbit. Furthermore, in Western European capitals the pressures of private sellers may have produced an exaggerated estimate of national economic interest in uninterrupted trade with the Soviet orbit.

Soviet orbit markets for Western European exports have proved neither adequate nor dependable. A more hopeful solution of the Western European trade problem is to be found in the opportunities for exports to underdeveloped areas of the world which are only beginning to be exploited. The extent of interim financing that might be required from the US to shift Western European trade in that direction should be only a fraction of the current rate of US assistance to Western Europe.

There is set forth below, for each of the eleven significant Western European trading countries, the value of its total trade with the orbit (Eastern Europe exclusive of Finland and Yugoslavia) and the percentage of each country's total world trade accounted for by such orbit trade.

Trade of Eleven Western European Countries with the Soviet Orbit
(Eastern Europe exclusive of Finland and Yugoslavia*)
1949

	Total Exports to Orbit		Total Imports from Orbit	
	Millions of dollars	As % of country's total exports to world	Millions of dollars	As % of country's total imports from world
United Kingdom	131	1.9	149	1.8
Sweden	85	8.3	88	8.0
Belgium-Luxembourg	84	4.7	35	2.0
France	65	2.4	69	2.2
Netherlands	62	4.8	101	5.5
Italy	57	5.1	75	5.0
Switzerland	56	7.0	46	5.2
Austria	54	17.9	83	14.1
Norway	49	12.3	56	7.2
Western Germany **	40	3.5	87	3.9
Denmark	34	5.1	66	8.1
Total	716	4.0	857	3.7

Note: Sum of 11 countries' exports to world = $18,028 million.
Sum of 11 countries' imports from world = $23,162 million.

* Exclusive also of the Soviet Zone of Germany, for which statistics are not separately available. For all countries except Western Germany, trade with the Sovzone is statistically unimportant (see **).

** Because of the omission from these statistics of trade (and smuggling) with the Sovzone, Western Germany's stake in trade with the orbit as a whole is here seriously understated. These figures for Western Germany do not, therefore, indicate the extent of the German interzonal trade problem.